



Department of Finance  
Canada

Ministère des Finances  
Canada

## SIGNED BY MINISTER

TO  
À

Minister of Finance

FROM  
DE

Paul Rochon

NOV 29 2017

s.16(2)(c)  
s.21(1)(a)  
s.21(1)(b)

Security classification	Classification de sécurité
<b>SECRET</b>	
Originator/Telephone number	Auteur/Numéro de téléphone
Gabriel Ngo	
Our file	Notre référence
[Redacted]	
Your file	Votre référence
2017FIN460272	
Date	
NOV 20 2017	

SUBJECT  
OBJET

**Part 1.1 of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*: Issuance of Ministerial Directive against North Korea**

**For action. Your decision is requested by November 24, 2017 in order that a Ministerial Directive may be published in the *Canada Gazette* on December 2, 2017.**

### Summary

This memo recommends

the Directive, it would mark the first use of this authority.

The Directive would complement the current sanctions and would provide a clearer statement of the enhanced due diligence that reporting entities are expected to undertake related to transactions involving North Korea that are not covered under the current sanctions. However, the Directive is not intended to negate the exceptions under the *Special Economic Measures (DPRK) Regulations*, such as those related to humanitarian aid. Moreover, the issuance of this Directive would not infringe on Global Affairs Canada's authority to issue a permit or certificate to allow specified activities or transactions under the sanctions regime.

North Korea has been identified by the Financial Action Task Force (FATF) as a country of great concern because they have failed to take any actions to address money laundering and terrorist financing. The FATF has issued a call for all jurisdictions to apply legally enforceable countermeasures to protect the international financial system from on-going and substantial money laundering and terrorist financing risks emanating from North Korea.

The Directive would require reporting entities under the PCMLTFA to undertake enhanced customer due diligence measures in relation to all transactions emanating from and destined to North Korea. Annex 1 provides an overview of the PCMLTFA authorities and FATF statements.

There are already extensive sanctions in place against North Korea<sup>1</sup> and Canadian regulators have issued non-legally binding guidance.

### Considerations

This will be the first occasion where you will be exercising the authorities under the PCMLTFA to issue a directive related to a high risk jurisdiction whose money laundering or terrorist financing risks are viewed as a threat to international financial systems.

This Directive will allow Canadian regulators to have enforceable measures to ensure that reporting entities conduct enhanced due diligence on North Korea related transactions that are not covered by the existing sanctions.

Should the FATF issue additional calls for countermeasures against other countries, persons or entities in the future, we would undertake a similar review of the underlying issues before making a recommendation on whether to issue a directive under the PCMLTFA.

### *Administrative Burden*

The countermeasures that reporting entities would be required to apply under the proposed Directive would supplement current obligations under the PCMLTFA.

The proposed countermeasures would require reporting entities to undertake enhanced customer due diligence measures in relation to all transactions to or emanating from North Korea. These would also apply to some transactions that are not covered under current sanctions, such as non-commercial remittances of less than \$1,000. The Directive would require taking special measures to identify clients, keep records up-to-date, and monitor financial transactions for activities that pose a high risk. The Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) and the Office of the Superintendent of Financial Institutions (OSFI) have already circulated non-legally binding notices and advisories to reporting entities encouraging them to undertake enhanced customer due diligence for North Korea-related transactions or proposed transactions.

### *International Standards and Commitments*

The proposed Directive would be consistent with actions taken by many of Canada's peers. Australia, the United States, Japan, Switzerland, South Korea, Mexico, and members of the

<sup>1</sup> Canada imposes UN Security Council sanctions on North Korea via regulations issued under the *United Nations Act*, and autonomous sanctions via regulations issued under the *Special Economic Measures Act*. Both sanctions regimes fall under the responsibility of the Minister of Foreign Affairs. Sanctions under the *Special Economic Measures (DPRK) Regulations*, in part, prohibit the provision of all financial services to North Korea and to persons in North Korea, as well as all exports and imports.

European Union currently have legally enforceable countermeasures in place including enhanced customer due diligence measures on transactions related to North Korea.

North Korea has not committed to implement the FATF Standards and has very few domestic measures in place to address money laundering and terrorist financing. The issuance of the Directive would strengthen Canada's implementation of the FATF Standards which state that countries should be able to apply legally enforceable countermeasures when called upon to do so by the FATF, or independent of any such call.

### ***Consultations***

it provides clearer instructions on how they should treat high-risk jurisdictions, which would help mitigate the risk of accusations of unfair practices or potential legal liability.

Relevant Assistant Deputy Minister-level officials at Global Affairs Canada (GAC) have been consulted on the potential issuance of the attached proposed Directive and concur in principle with the issuance of the Directive. GAC officials will be briefing the office of the Minister of Foreign Affairs.

this Directive is not meant to deny humanitarian aid, nor would it affect GAC's authority to issue a permit or certificate to allow specified activities or transactions with respect to exceptions under the sanctions regime.

The proposed Directive would also be consistent with Canada's posture in relation to North Korea's recent launches of ballistic missiles, which violated multiple United Nations Security Council resolutions, and Canada's public statements identifying North Korea as a jurisdiction of concern.

### ***Implementation***

Should you approve the issuance of the attached Directive, it would be published in the *Canada Gazette*. FINTRAC would also monitor compliance by reporting entities in their implementation of the Directive. As required by the PCMLTFA, the Directive would be reviewed at least every three years to ensure it is still advisable.

### ***Communication Strategy***

Finance Canada has previously published general information about Part 1.1, as well as a non-exhaustive list of countermeasures that could be included in a Ministerial Directive. FINTRAC has also prepared guidance for publication in anticipation of the first directive. If the Directive is approved, FINTRAC will communicate the Directive to reporting entities. Finance Canada will work with FINTRAC to ensure that FINTRAC's guidance will be updated and ready to be published shortly after the issuance of the Directive for North Korea to clearly outline regulatory expectations as well as explaining to how this Directive would complement Canada's sanctions regime. We would also inform OSFI of the issuance of the Directive.

s.21(1)(a)

s.21(1)(b)

000003

**Recommendation**



I concur:

I wish to discuss:

**s.21(1)(a)**

**s.21(1)(b)**

## ANNEX 1 – Overview of Authorities and the Financial Action Task Force (FATF)

### *Authorities*

Part 1.1 of the PCMLTFA was introduced as part of Budget 2010, and entered into force upon Royal Assent of *Economic Action Plan 2014* on June 19, 2014. Part 1.1 introduced two new authorities for the Minister of Finance:

1. The authority to issue directives that require reporting entities<sup>2</sup> to apply countermeasures in respect of transactions originating from or destined to designated foreign jurisdictions and entities; and
2. The authority to recommend that the Governor-in-Council issue regulations limiting or prohibiting reporting entities from entering into a financial transaction originating from or destined to designated foreign jurisdictions and entities.

The Minister may only issue a directive if:

1. an international body or organization has called on its members to take measures on the grounds that the foreign jurisdiction or entity's anti-money laundering and anti-terrorist financing (AML/ATF) measures are ineffective or insufficient; or
2. the Minister is of the opinion that the ineffectiveness or insufficiency of the jurisdiction or entity's AML/ATF measures could cause an adverse impact or reputational risk to the integrity of Canada's financial system.

Under the PCMLTFA, the Minister of Finance is required to review a directive at least every three years after it is issued.

The purpose of these new authorities is to enhance Canada's AML/ATF regime, and safeguard the integrity of the Canadian financial system. They also support Canada's continued international leadership role by responding to a G7 and G20 commitments to adopt countermeasures against countries with ineffective AML/ATF controls.

### *Financial Action Task Force*

The Financial Action Task Force (FATF) is the international standard setting body on anti-money laundering, anti-terrorist financing and anti-proliferation financing. FATF holds plenary meetings three times a year, where it reviews the status of countries identified as high risk for money laundering and terrorist financing. Immediately following these meetings, the FATF issues a Public Statement to all its members, calling for the application of countermeasures to protect the international financial system from the ongoing and substantial risks emanating from jurisdictions identified as high risk and non-cooperative. Since February 18, 2010, the FATF has identified North Korea and Iran in its Public Statements.

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<sup>2</sup> Banks, cooperative credit societies, credit unions, life insurance companies, trust and loan companies, securities dealers, money services businesses, agents of the Crown that sell money orders, real estate brokers, dealers in precious metals and stones, and casinos.

In its latest Public Statement, issued on June 23, 2017, the FATF once again called for legally enforceable countermeasures against North Korea. The FATF continues to suspend its call for countermeasures against Iran, given Iran's political commitment and steps taken implement its Action Plan with the FATF to address its strategic AML/CFT deficiencies. North Korea is not a member of the FATF global network. It has not committed to implement the FATF Standards and has very few domestic measures in place to address money laundering and terrorist financing.

While the FATF does not prescribe the type of countermeasures that countries should apply against transactions emanating to or from North Korea, it does provide a non-exhaustive list of examples of the types of countermeasures that could be applied, such as requiring financial institutions to apply specific elements of enhanced customer due diligence, and refusing the establishment of subsidiaries, branches or representative offices in the countries concerned.

Minister of Finance



Ministre des Finances

Ottawa, Canada K1A 0G5

**MINISTERIAL DIRECTIVE MADE UNDER SECTION 11.42 OF THE PROCEEDS OF  
CRIME (MONEY LAUNDERING) AND TERRORIST FINANCING ACT**

Whereas section 11.42 of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act (PCMLTFA)* gives the Minister of Finance the authority to issue a directive to any person or entity subject to the *Act*, in order to safeguard the integrity of Canada's financial system.

I issue the following directive:

**Every person or entity referred to in section 5 of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (the *Act*) shall treat all transactions originating from, or destined to, North Korea (Democratic People's Republic of Korea) as high risk for the purposes of subsection 9.6(3) of the *Act*.**

**RATIONALE FOR DIRECTIVE**

The Minister of Finance has issued this directive in response to a call from the Financial Action Task Force, which called on its members to take measures in relation to North Korea on the grounds that the states' anti-money laundering or anti-terrorist financing measures are ineffective or insufficient.

**COMING INTO FORCE**

This directive will come into force on the day of its publication in the *Canada Gazette*, Part I.

**TERMINATION DATE**

This directive will apply until such time as it is amended or revoked by the Minister of Finance.

Ottawa, , 2017

The Honourable William Francis Morneau, P.C., M.P.  
*Minister of Finance*

**Canada**

Minister of Finance

Ministre des Finances



Ottawa, Canada K1A 0G5

**DIRECTIVE MINISTÉRIELLE ÉMISE EN VERTU DE L'ARTICLE 11.42 DE LA LOI  
SUR LE RECYCLAGE DES PRODUITS DE LA CRIMINALITÉ ET LE FINANCEMENT  
DES ACTIVITÉS TERRORISTES**

Attendu que l'article 11.42 de la *Loi sur le recyclage des produits de la criminalité et le financement des activités terroristes* accorde au ministre des Finances le pouvoir de donner une directive à l'égard de toute personne ou entité assujettie à la *Loi*, afin de protéger l'intégrité du système financier canadien.

J'émet la directive suivante :

Toute personne ou entité visée à l'article 5 de la *Loi sur le recyclage des produits de la criminalité et le financement des activités terroristes* (la *Loi*) traitera toutes les opérations issues ou à destination de la Corée du Nord (République populaire démocratique de Corée) comme des opérations à risques élevés en vertu du paragraphe 9.6(3) de la *Loi*.

**JUSTIFICATION POUR LA DIRECTIVE**

Le ministre des Finances a émis la présente directive en réponse à un appel du Groupe d'action financière, en vertu duquel il a demandé à ses membres de prendre des mesures relativement à la Corée du Nord au motif que les mesures de lutte contre le recyclage des produits de la criminalité ou contre le financement des activités terroristes de l'État sont inefficaces ou insuffisantes.

**ENTRÉE EN VIGUEUR**

La présente directive entrera en vigueur le jour de sa publication dans la Partie I de la *Gazette du Canada*.

**DATE DE CESSATION**

La présente directive s'appliquera jusqu'à ce qu'elle soit modifiée ou révoquée par le ministre des Finances.

Ottawa, le 2017

L'honorable William Francis Morneau, P.C., M.P.  
*Ministre des Finances*

Canada

(FOLD HERE) (PLIER ICI)



 Department of Finance  
Canada      Ministère des Finances  
Canada

For Signature by / Information of À signer par / Pour l'information de	
<b>Minister of Finance</b>	
Prepared by (name/initials/division) Préparé par (nom/initiales/division)	
<b>Gabriel Ngo</b>	
In consultation with (name/initials/branch(es)/division(s)) En consultation avec (nom/initiales/direction(s)/division(s))	
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Approved by      Approuvé par	
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Special Advisor Conseiller spécial	<b>Peter Routledge</b>
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Assistant Deputy Minister Sous-ministre adjoint	<b>Leah Anderson</b>
Associate Deputy Minister & G7 Deputy for Canada Sous-ministre délégué et représentant du Canada au G7	<b>Rob Stewart</b>
Associate Deputy Minister Sous-ministre délégué	
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Remarks      Remarques:	
File no. No de dossier <b>2017FIN460272</b>	Date

<b>Associate Deputy Minister &amp; G7</b>	<input type="checkbox"/>
<b>Deputy for Canada</b>	<input type="checkbox"/>
<b>Sous-ministre délégué et représentant ( Sign on behalf of DM )</b>	<input type="checkbox"/>
<b>du Canada au G7</b>	<b>( Signer au nom du SM )</b>
<b>Associate Deputy Minister</b>	<input type="checkbox"/>
<b>Sous-ministre déléguée</b>	<input type="checkbox"/>
<b>( Sign on behalf of DM )</b>	<input type="checkbox"/>
<b>( Signer au nom du SM )</b>	<input type="checkbox"/>
<b>Assistant Deputy Minister</b>	<input type="checkbox"/>
<b>Sous-ministre adjoint(e)</b>	<input type="checkbox"/>
<b>( Sign on behalf of DM )</b>	<input type="checkbox"/>
<b>( Signer au nom du SM )</b>	<input type="checkbox"/>



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**MEMORANDUM NOTE DE SERVICE**

Security classification Classification de sécurité

**PROTECTED B**

Originator/Telephone number · Auteur/Numéro de téléphone

Leah Anderson

Our file Notre référence

Your file Votre référence

2017FIN464868

Date

NOV 08 2017

TO  
À

Minister of Finance

FROM  
DE

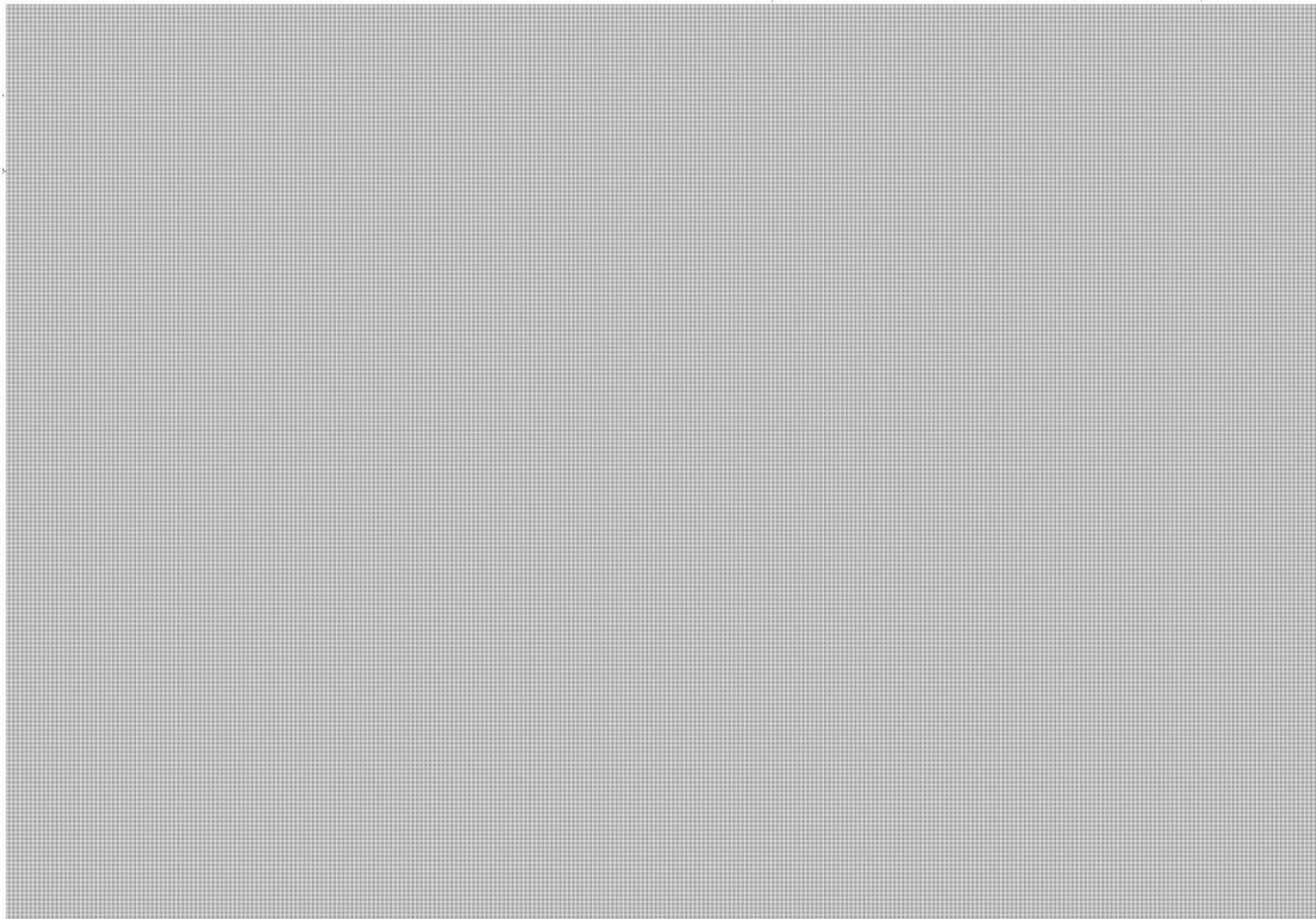
Paul Rochon

SUBJECT  
OBJET

**Canada Pension Plan Investment Board: Meeting with CPPIB**

**For information. To be read before**

**Overview**



ADM: Leah Anderson (369-3620)

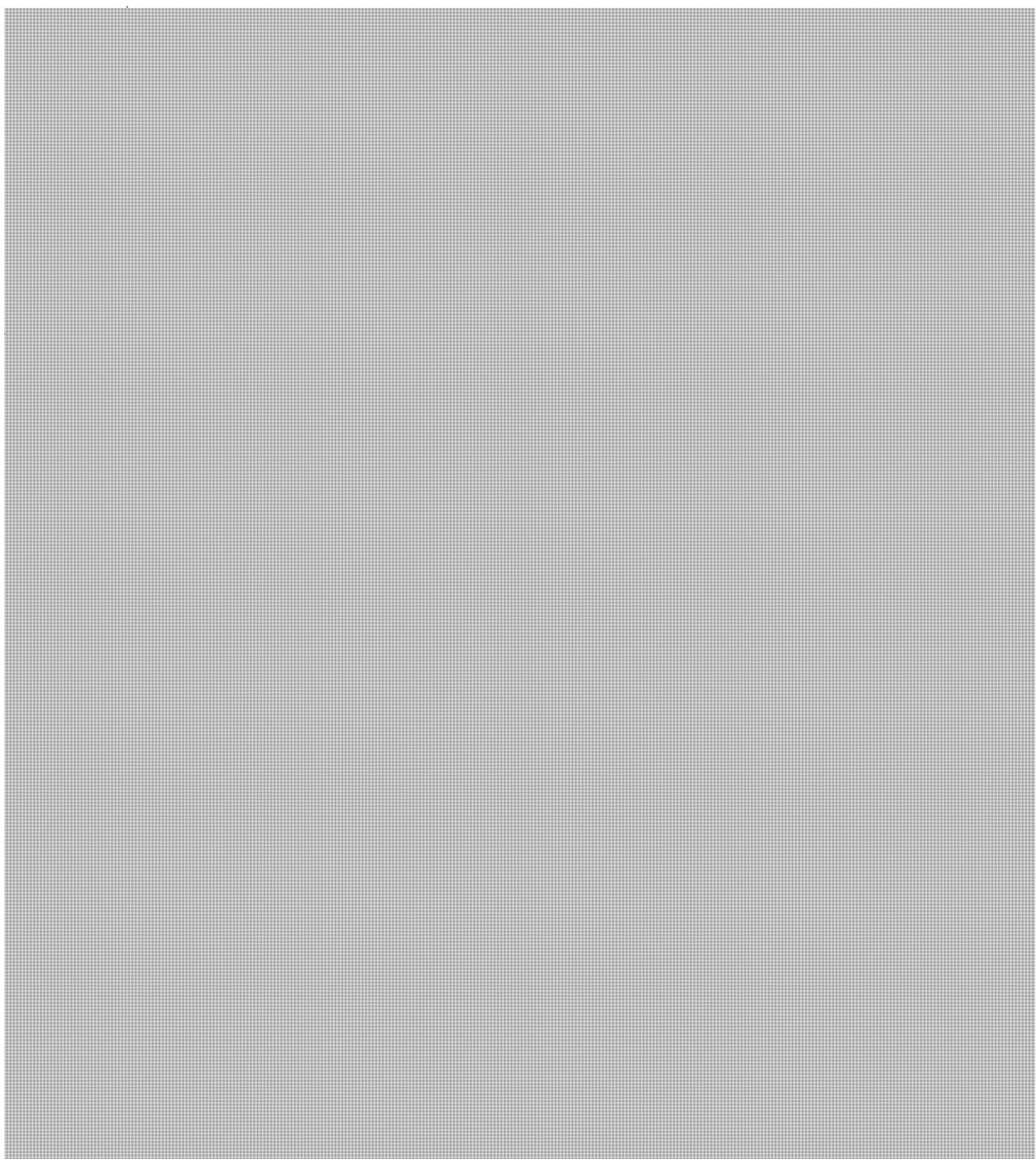
**Canada**

- s.14(a)
- s.14(b)
- s.16(2)(c)
- s.18(b)
- s.21(1)(a)
- s.21(1)(b)

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**Background**

***Director selection and appointments process***



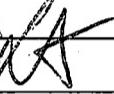
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s.21(1)(a)**

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Canada

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Prepared by: Préparé par:	
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In consultation with: En consultation avec:	
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Deputy Minister to see Sous-ministre à voir	Paul Rochon
Remarks / Remarques:	
<b>Canada Pension Plan Investment Board: Meeting with CPPIB</b>	
File no. No de dossier  2017FIN464868	Date  NOV 08 2017

Associate Deputy Minister and G7/G20 and FSB Deputy for Canada Sous-ministre délégué et représentant du Canada au G7/G20 et au CSF	
( Sign on behalf of DM ) ( Signer au nom du SM )	
Associate Deputy Minister Sous-ministre délégué	( Sign on behalf of DM ) ( Signer au nom du SM )
Assistant Deputy Minister Sous-ministre adjoint(e)	( Sign on behalf of DM ) ( Signer au nom du SM )



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MEMORANDUM NOTE DE SERVICE

Security classification / Classification de sécurité

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Originator/Auteur

Brendon Bernard

Our file Notre référence

Your file Votre référence

2017FIN464966

Date

NOV 21 2017

TO → Minister of Finance

FROM DE

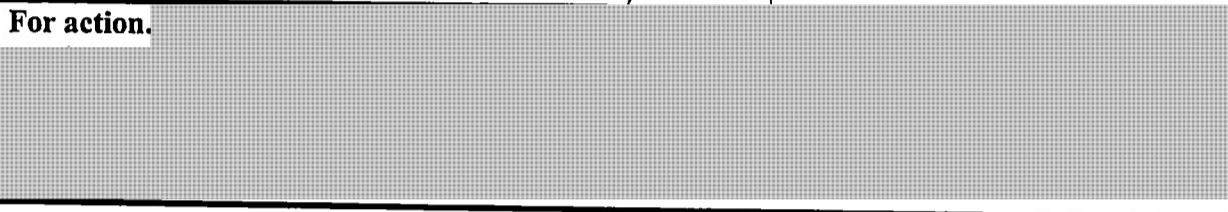
Paul Rochon

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MINISTER  
MINISTER'S  
COMMENTS

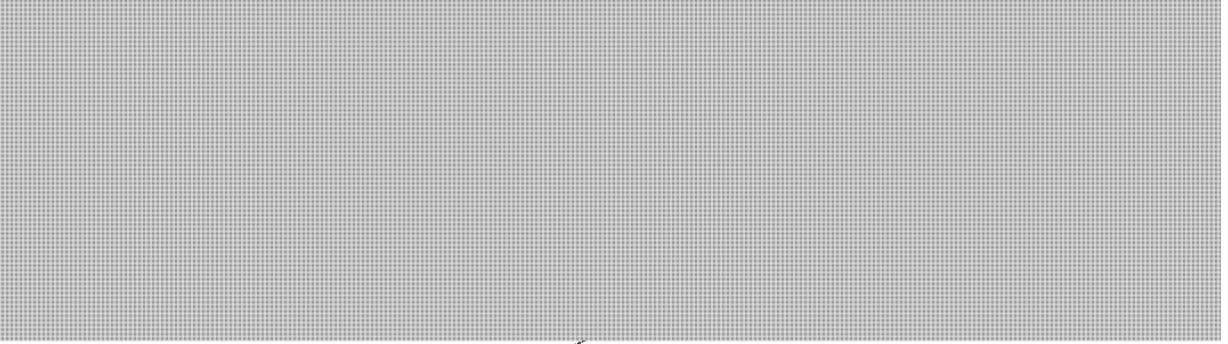
DEC 04 2017

SUBJECT  
OBJET Follow-up to November 6, 2017 Housing Finance Policy Discussion

**For action.**



**Issue**



As discussed on November 6, the President and CEO of the Canada Mortgage and Housing Corporation (CMHC), Mr. Evan Siddall, delivered a speech on November 14 in which he signalled concerns regarding potential spillovers to non federally-regulated lenders as a result of the B-20 changes; underscored the risk this could present for CMHC's securitization program; and foreshadowed CMHC's intent to require participants in its securitization program to share more information on their uninsured activity.



ADM: Leah Anderson (369-3620)  
Director General: Elisha Ram (369-3968)

Canada

s.14(a)

s.21(1)(a)

s.21(1)(b)

000014

**Attachments**

**s.18(d)  
s.21(1)(a)  
s.69(1)(g) re: (d)  
s.69(1)(g) re: (e)**

**Pages 16 to / à 43  
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**14(a)**

**of the Access to Information Act  
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Canada

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**MEMORANDUM NOTE DE SERVICE**

TO Minister of Finance

FROM DE

SUBJECT  
OBJET

memo to the Minister or Minister's Staff

Min's Office..... Orig. + 6  
DMO ..... 4  
Assoc. DM & G7 Deputy ..... 1  
EFP ..... e-copy  
C&C ..... e-copy  
LAW ..... e-copy

for Paul Rochon

Security classification Classification de sécurité

**PROTECTED B**

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Our file Notre référence

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2017FIN464302

Date

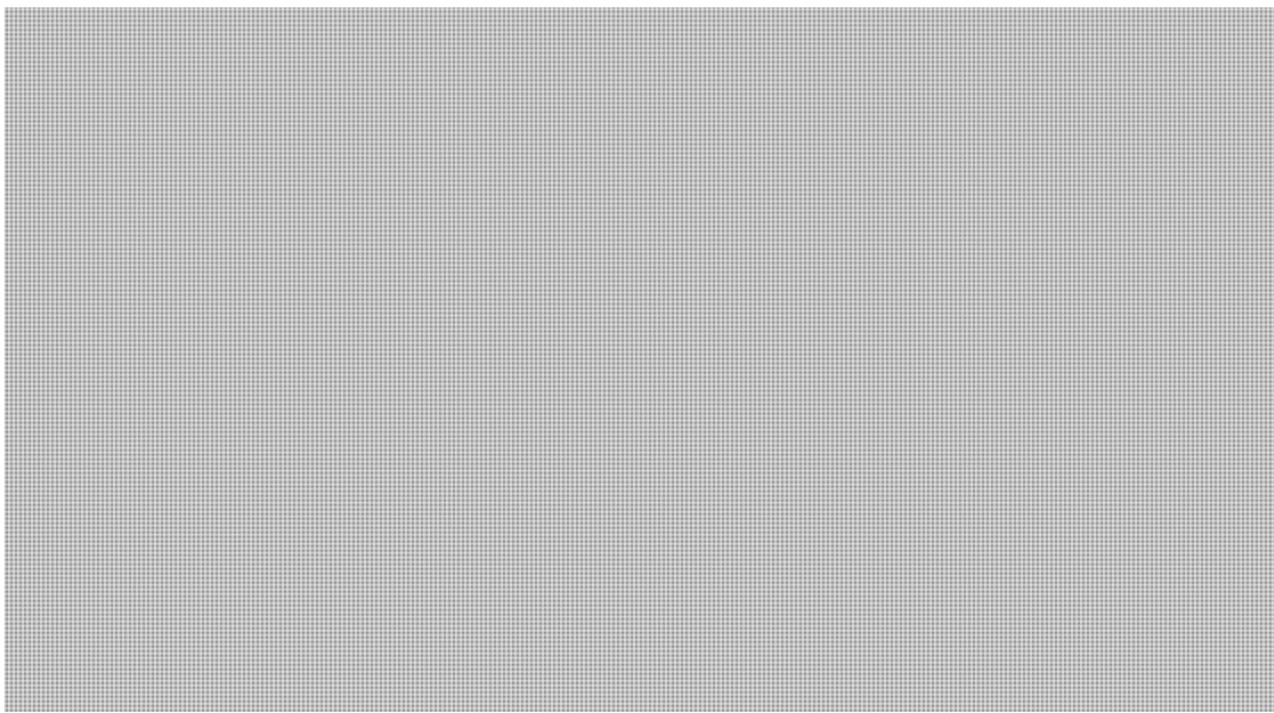
NOV 06 2017

**Report on Examinations and Inquiries into the Business and Affairs of Federally Regulated Financial Institutions**

**For information only.**

**Issue**

As required by legislation, the Superintendent of Financial Institutions has submitted to you a report (attached) on the results of examinations and inquiries into the business and affairs of Federally Regulated Financial Institutions (FRFIs) for the fiscal year (FY) 2016-2017. The report presents key findings of the Office of the Superintendent of Financial Institutions (OSFI), including the overall health of financial institutions in Canada and their compliance with the statutes administered by OSFI. We have reviewed OSFI's report and have no concerns.



ADM: Leah Anderson 613-369-3620  
Director: Lisa Pezzack 613-369-3864

**Canada**

**s.21(1)(a)**

**s.21(1)(b)**

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**Pages 45 to / à 46  
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**21(1)(a), 21(1)(b)**

**of the Access to Information Act  
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Canada

Ministère des Finances  
Canada

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À signer par / Pour l'information de

Minister of Finance

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In consultation with (name/initials/branch(es)/division(s))  
En consultation avec (nom/initiales/direction(s)/division(s))

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Associate Deputy Minister & G7 Rob Stewart

Deputy for Canada Sous-ministre délégué et représentant

du Canada au G7

Associate Deputy Minister Paul Rochon

Sous-ministre déléguée

Deputy Minister

Sous-ministre

Remarks Remarques:

**Report on Examinations and Inquiries into the Business  
and Affairs of Federally Regulated Financial Institutions**

File no. No de dossier

2017FIN464302

Date NOV 06 2017

Associate Deputy Minister & G7

Deputy for Canada

Sous-ministre délégué et représentant ( Sign on behalf of DM )   
du Canada au G7 ( Signer au nom du SM )

Associate Deputy Minister

Sous-ministre déléguée

( Sign on behalf of DM )

( Signer au nom du SM )

Assistant Deputy Minister

Sous-ministre adjoint(e)

( Sign on behalf of DM )

( Signer au nom du SM )



FOR INFORMATION

PROTECTED B

August 09, 2017

**MEMORANDUM TO THE MINISTER OF FINANCE**

**Subject: Report on Examinations and Inquiries into the Business and Affairs of  
Federally Regulated Financial Institutions**

**PURPOSE**

As required by legislation, the purpose of this memorandum is to report the results of the FY 2016-2017 examinations and inquiries into the business and affairs of the banks, authorized foreign bank subsidiaries and branches, trust companies, loan companies, cooperative credit associations, insurance companies and fraternal benefit societies under federal jurisdiction, as well as the insurance business in Canada of federally registered foreign insurance companies. Although not required by legislation, we are also taking this opportunity to provide an overview of the federally regulated private pension plans and the environment in which they operate.

This memorandum is for information only and does not require any action.

**AUTHORITY**

The various financial institutions' statutes ("the legislation")<sup>1</sup> require that:

The Superintendent, from time to time, but at least once in each calendar year, shall make or cause to be made any examination and inquiry into the business and affairs of each ... (financial institution) ... that the Superintendent considers to be necessary or expedient to determine whether the ... (financial institution) ... is complying with the provisions of this Act and whether the ... (financial institution, excluding foreign bank branches) ... is in a sound financial condition and, after the conclusion of each examination and inquiry, shall report on it to the Minister.

---

<sup>1</sup>The *Bank Act*, the *Trust and Loan Companies Act*, the *Insurance Companies Act*, and the *Cooperative Credit Associations Act*. Section 643(1) of the *Bank Act* for domestic banks requires the Superintendent to report to the Minister, at least annually, on both "whether the bank is complying with the provisions of this Act and whether the bank is in sound financial condition." The parallel Section 613(1) of the *Bank Act* for Foreign Bank Branches (FBBs) only requires the Superintendent to report to the Minister on whether the FBB "is complying with the provisions of this Act." This difference recognizes OSFI's limited ability to determine whether an FBB is in sound financial condition due to its more limited access to information about the foreign bank of which the FBB is a part.

**Canada**



**OPINION**

In my opinion, based on the examinations and inquiries carried out by my Office, the banks, authorized foreign banks, trust companies, loan companies, cooperative credit associations, insurance companies and fraternal benefit societies under federal jurisdiction, as well as the insurance business in Canada of federally registered foreign insurance companies are, except as otherwise indicated in this memorandum, in sound financial condition and are, to the best of my knowledge, complying with the legislation.



Jeremy Rudin  
Superintendent

Appendices attached

cc:

Rob Stewart, Associate Deputy Minister and G7/G20 & FSB Deputy for Canada

Contact:

OSFI Communications and Consultations Division  
Email: [information@osfi-bsif.gc.ca](mailto:information@osfi-bsif.gc.ca)

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**FINANCIAL INSTITUTIONS OVERVIEW**

The supervisory process for financial institutions (described in Appendix A) summarizes the principles, concepts and core process that OSFI uses to guide its supervision of federally regulated financial institutions (FRFIs). This methodology involves onsite reviews and ongoing monitoring to arrive at an assessment of the FRFI's risk profile that includes the risks inherent in its activities, the quality of its risk management, its financial condition and its compliance with applicable laws and regulations. Based on its risk profile, the FRFI is given an Intervention Rating, described in the *Guide to Intervention for Federally Regulated Financial Institutions*. These ratings and their general characterizations are: Stage 0 (no significant problems/normal activities); Stage 1 (early warning); Stage 2 (risk to financial viability or solvency); Stage 3 (future financial viability in serious doubt); and, Stage 4 (non-viability/insolvency imminent).

OSFI keeps federal agencies (the Department of Finance, Bank of Canada, Canada Deposit Insurance Corporation and the Financial Consumer Agency of Canada) informed of key supervisory issues affecting FRFIs through meetings of the Financial Institutions Supervisory Committee (FISC), held quarterly or as necessary. Detailed information on individual "staged" institutions is available in the Intervention Reports that OSFI makes available as part of the FISC process.

**Deposit-taking Institutions (DTIs)**

The following table shows the Intervention Ratings as at March 31, 2017:

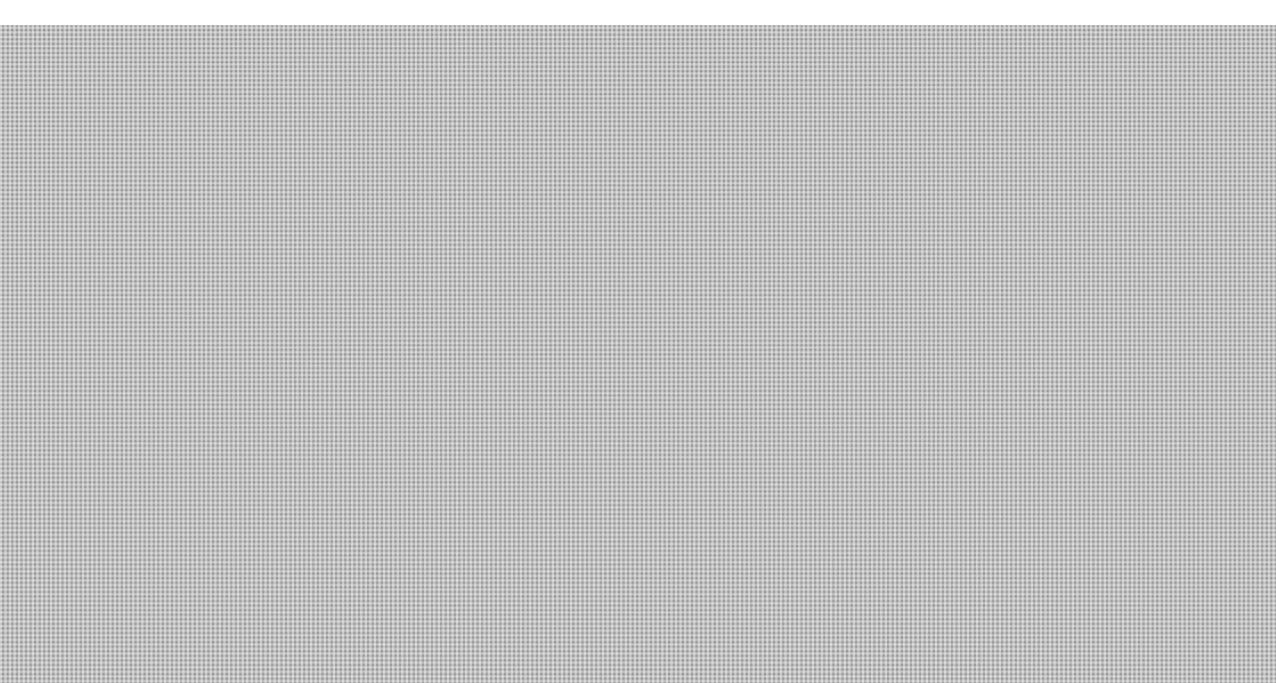
Type of Deposit-taking Institution	# Active FIs	Normal	Stage 1	Stage 2	Stage 3	Stage 4	ML* (Not Active)
Domestic Banks	32						-
Foreign Bank Subsidiaries	24						3
Foreign Bank Branches**	31						1
Loan Companies	18						7
Trust Companies	44						1
<b>TOTAL</b>	<b>149</b>						<b>12</b>

\* ML (managed liquidation) refers to institutions that are not taking new deposits, are not making new loans, are in voluntary wind-up or are in managed liquidation.

The Canadian banking industry includes six domestic systemically important banks (D-SIBs) and many smaller deposit-taking institutions (DTIs). The six D-SIBs account for approximately 92% of total assets among Canada's federally regulated DTIs. The remaining 8% of Canadian banking assets are held by smaller institutions with niche focus and business strategies, such as mortgage lending, commercial real estate or credit cards.

Canadian banks' Common Equity Tier 1 (CET1) capital ratios remain above OSFI's supervisory minima of 7% for small and medium-sized banks (SMSBs) and 8% for the domestic systemically important banks (D-SIBs), for which a 1% common equity surcharge was added to CET1 requirements upon designation.

Canadian banks also reported LCR and LR levels above the minimum requirements.



***Domestic Systemically Important Banks (D-SIBs)***

In March 2013, the six largest deposit-taking institutions were identified as domestic systemically important banks.<sup>2</sup>

The D-SIBs average CET1 ratio was 11.1% as of the first quarter ending on January 31, 2017. Recognizing their status as systemically important, D-SIBs are expected to have in place advanced practices in the design and operation of oversight functions and internal controls. These institutions are also subject to more intense supervision, based on their larger size and complexity.

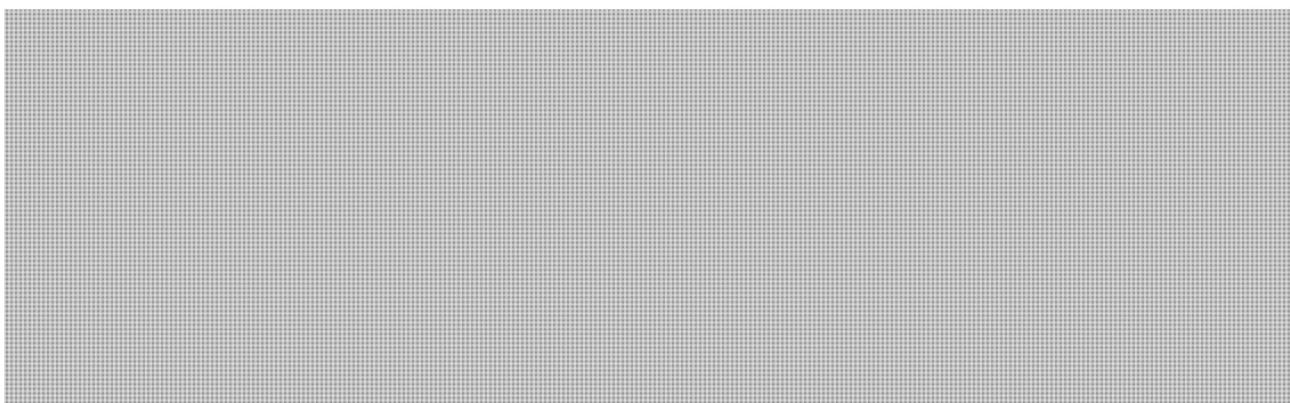
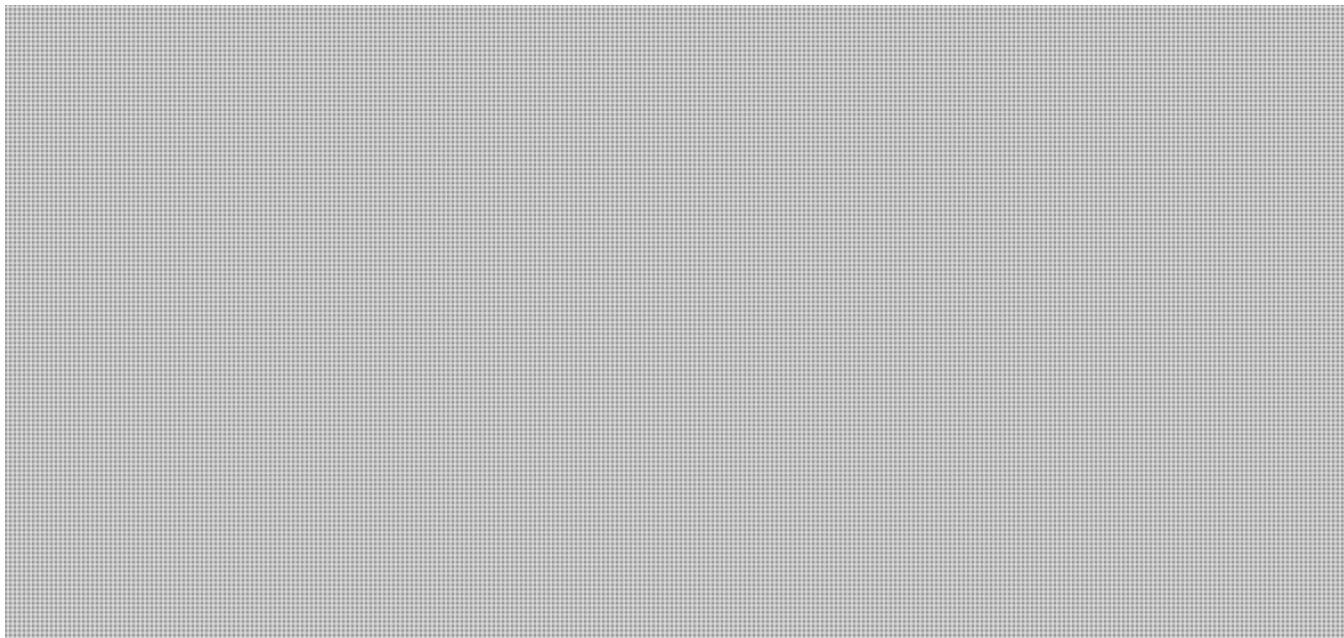
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<sup>2</sup> Bank of Montreal, Bank of Nova Scotia, Canadian Imperial Bank of Commerce, National Bank of Canada, Royal Bank of Canada, Toronto Dominion Bank.

**Pages 53 to / à 55  
are withheld pursuant to sections  
sont retenues en vertu des articles**

**20(1)(b), 20(1)(c), 21(1)(a), 21(1)(b)**

**of the Access to Information Act  
de la Loi sur l'accès à l'information**



***Co-operative Retail Associations (Credit Union Centrals) and Credit Unions***

As noted in our last annual report, OSFI is no longer (as at January 15, 2017) responsible for the supervision of provincially incorporated Credit Union Centrals subject to Part XVI of the *Cooperative Credit Association Act*.



**Insurance Companies (Life and Property & Casualty)**

The following table shows the Intervention Ratings as at March 31, 2017:

**CATEGORY OF INTERVENTION**

Type of Insurer	#	Normal	Stage 1	Stage 2	Stage 3	Stage 4	ML*
Canadian Life	37						-
Foreign Life	27						-
Canadian Fraternal	9						-
Foreign Fraternal	5						-
Canadian P&C	81						-
Foreign P&C	67						-
Mortgage	3						-
<b>TOTAL</b>	<b>229</b>						-

\* ML (managed liquidation) refers to institutions that are not issuing new policies or are in voluntary wind-up or managed liquidation.

***Life Insurers***

The life insurance industry consists of three conglomerates and more than 70 domestic companies and foreign branches. The conglomerates account for more than 90% of the assets for the sector and have operations in Canada, the United States, Europe and Asia. The conglomerates offer a broad range of wealth management, life and health insurance products through a number of distribution channels. The non-conglomerates are more restricted in product breadth and distribution.

The key metric used to assess capital adequacy for Canadian supervisory purposes is the Minimum Continuing Capital and Surplus Requirement (MCCSR) ratio for companies, and the Test of Adequacy of Assets and Margin (TAAM) for branches. These metric are to be replaced in January 2018 by the Life Insurance Capital Adequacy Test (LICAT) ratio for companies and the Life Insurance Margin Requirements and Adequacy of Assets in Canada Test (LIMAT) for branches.

The LICAT represents an evolution in OSFI's regulatory capital expectations and is designed to take account of significant changes in the nature and management of risk within the insurance

industry. It improves the overall measurement of the quality of available capital and incorporates refined techniques in risk measurement.

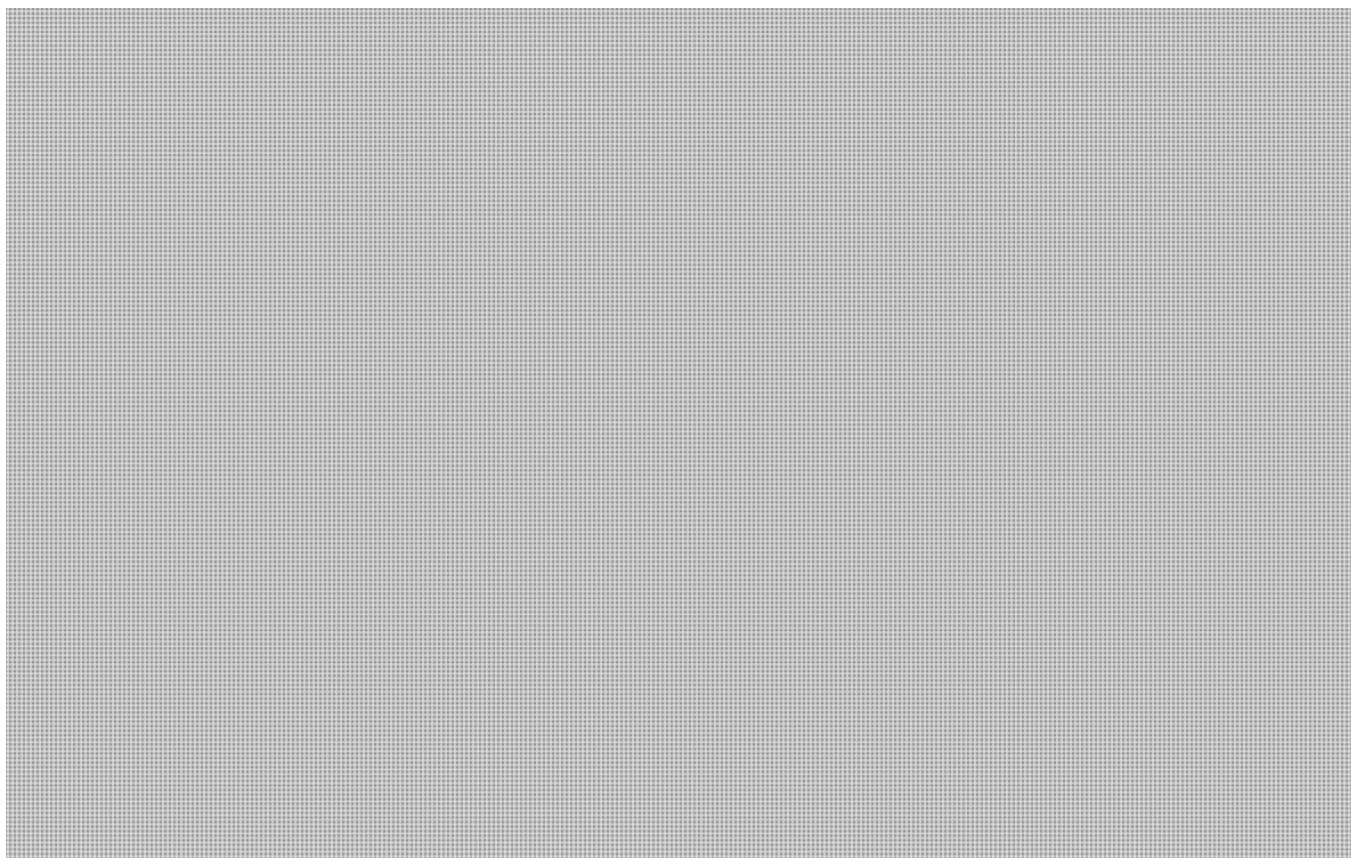
In September 2016, OSFI published the LICAT 2018 guideline. Since then, OSFI and the industry have continued to prepare for the implementation of the new Capital Adequacy Test. Specifically, all federally regulated life insurers completed an implementation preparation exercise (comprised of a test run, sensitivity testing and the development of an implementation plan). Analysis of exercise results and stakeholder feedback led to further refinements and, in June 2017, a revised version of the LICAT 2018 guideline was released for consultation. Comments received will be considered in finalizing the LICAT 2018 guideline, which will be issued in the fall of 2017.

The financial crisis resulted in a challenging macro-economic environment for life insurers, and this continues. Life insurers have ceased or reduced sales of products with high-risk market guarantees, de-risked and re-priced product offerings, increased their hedging of product risks, divested themselves of high risk blocks of business, and strengthened their governance and risk management practices. As a result, life insurers have significantly decreased their sensitivity to interest rate and equity fluctuations.

Market volatility and persistently low interest rates have had an effect on in-force product profitability as investment yields have declined below yields anticipated when these products were originally priced. However, companies have set up additional balance sheet provisions so they will be able to meet their future obligations to policyholders.

The aggregate capital ratio for the life insurance industry remains above OSFI's minimum requirements but declined to 227% at year-end 2016 compared to 237% for 2015, driven largely by market impacts. The aggregate level has been well above OSFI's minimum requirements for the last several years as companies built up capital in response to market volatility.

Return on equity for the industry was 10% and net income was \$9.8 billion in 2016, compared to 9% and \$8.8 billion, respectively, in 2015. About 75% of the industry's net income is attributable to the three large conglomerates. The increases in net income and return on equity were largely due to favourable investment gains and credit experience, along with the strengthening of the U.S. dollar. Regardless of favourable financial results in 2016, challenges remain as persistently low interest rates make asset/liability management more difficult and strain in-force product profitability as many products cannot be re-priced due to contractual provisions. OSFI is monitoring changes in risk policies to ensure companies adopt appropriate mitigation practices and controls if they move up the risk curve; and product design and pricing to confirm generally accepted actuarial standards are applied and scenarios are adequately tested under severe but plausible conditions.



***Property & Casualty Insurers (excluding Mortgage Insurers)***

2016 was a challenging year for the Canadian property & casualty insurance industry as a result of natural catastrophes. The Alberta Fort McMurray wildfire is the costliest catastrophe in Canadian history and resulted in approximately \$4B of insured losses, surpassing the 2013 Alberta/Ontario floods and 1998 Ontario/Quebec ice storm. Along with other natural catastrophes, the industry recorded a total of \$5B in weather related losses in 2016, compared to an annual average of \$1B in losses in recent years. Despite sufficient reinsurance coverage where three quarters of the insured losses relating to Fort Mac were borne by the international reinsurance community, the Canadian P&C industry reported an overall \$61M of underwriting losses compared to \$2B of underwriting profit last year. Net income of \$1.5B in 2016 was significantly lower than the \$3.1B reported last year.

The Minimum Capital Test ("MCT") is the capital metric used for Canadian companies, while Branch Adequacy of Assets Test ("BAAT") is used for foreign companies. The aggregate capital ratio for the industry remained relatively stable at 269% in 2016 despite the catastrophe impacts. All federally regulated P&C insurers (except one which was rectified shortly after the year-end) maintained capital ratios in excess of the 150% supervisory target.

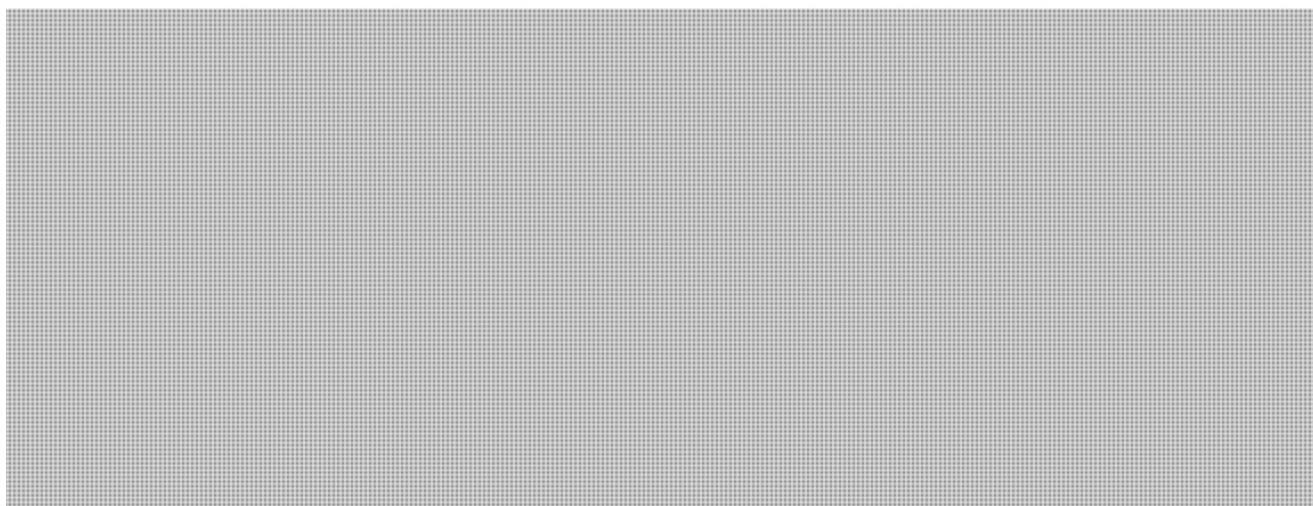
As demonstrated by the 2016 results, catastrophes and weather related losses remain a material risk for the P&C industry and continue to drive earnings volatility. The industry

**s.20(1)(b)**

**s.20(1)(c)**

continues to lobby for government backstop/participation with respect to flood and earthquake coverages. In addition, automobile insurance profitability (particularly in Ontario) remains a key challenge for a certain segment of the industry. Although underwriting profits were reported for some insurers writing personal auto in 2016, they were partly driven by favourable reserve developments which should not be viewed as stable or sustainable. Meanwhile, future autonomous vehicle development and the related impacts to automobile insurance continue to be one of the key emerging trends in the industry. Other challenges and risks to the industry include cyber security, relatively low interest rate environment, global economic uncertainties, and newer products such as cyber and sharing economy, where the lack of historical loss information poses pricing and underwriting challenges.

While OSFI acknowledges reinsurance is an important risk management tool, in particular related to catastrophe risk management, there are concerns about specific reinsurance practices. The main concerns are high policy limits/net retentions relative to financial resources in Canada and heavy reliance on (unregistered affiliated) reinsurance and related party credit risk concentration. In response, OSFI is conducting a comprehensive review of reinsurance practices used by the industry. The project will likely result in revision of various OSFI guidelines. Industry consultation will take place before the reform is finalized.



#### ***Mortgage Insurers***

The mortgage insurance industry consists of four insurers: Canada Mortgage and Housing Corporation (CMHC) and three private sector insurers, one of which is currently dormant, with no policies in force. As such, this section refers solely to the active federally regulated private sector mortgage insurers. A report on OSFI's examinations undertaken for CMHC (under section 21.2 of the *National Housing Act*) is prepared under separate cover.<sup>4</sup>

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<sup>4</sup> Our report on CMHC, dated May 23, 2017, was submitted to the Minister of Families, Children and Social Development and the Minister of Finance.

**s.20(1)(b)**

**s.20(1)(c)**

The key metric used to assess capital adequacy for supervisory purposes is the Minimum Capital Test (MCT). The weighted average MCT capital ratio was 241% as at December 31, 2016, representing an increase of 8 percentage points over the previous year-end.

This metric has been updated, effective January 1, 2017, as set out in the *Advisory on Capital Requirements for Federally Regulated Mortgage Insurers*. The new Advisory reflects an evolution in OSFI's regulatory capital expectations, and is designed to be more risk-sensitive and responsive to the key risk-drivers affecting the probability and severity of mortgage loan defaults. Following extensive consultation with industry over a two-year period, OSFI released the final version of the new Advisory in December 2016; the mortgage insurers have developed the necessary capabilities to transition to the new framework in 2017.

Mortgage insurers continue to face a heightened level of risk from the current economic environment:

- *Elevated housing prices:* Significant price increases in key markets (notably the Greater Vancouver Area, Greater Toronto Area and Golden Horseshoe) heighten the concern that, in the event of a severe economic downturn, prices could fall materially. Recently originated mortgages could be at risk of being significantly underwater.
- *Household vulnerability:* Consumers have amassed record levels of household indebtedness, which renders mortgage borrowers more vulnerable to the risks of unemployment or a significant and sustained increase in interest rates.
- *Depressed oil prices:* While loss ratios on business written in oil-dependent regions have improved relative to the level attained in Q3 of 2016, risk continues to be elevated as unemployment rates remain well above 2014 lows, and oil prices remain depressed.

The financial performance of the private sector mortgage insurers improved in 2016 relative to the previous year. Net after-tax income rose 10% to \$539 million, reflecting an increase in earned premiums, partly offset by an increase in claims and operating expenses. The weighted average loss ratio in 2016 was 20%, a deterioration of 0.6 percentage points. The average return on equity remained stable at 11.6%. 

Despite these currently favourable financial results, OSFI continues to focus on the elevated potential for a significant increase in mortgage insurance claims, and on the adequacy of the insurers' capital to sustain this stress.

### **Money Laundering and Terrorist Financing (ML/TF) Risk Management Overview**

OSFI does not have a statutory supervisory role under the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* and its Regulations (collectively, PCMLTFA). OSFI's role in assessing ML/TF risk management policies and procedures relates to OSFI's prudential mandate because FRFIs are vulnerable to being used by criminal elements to move the proceeds of crime or terrorist financing. Our role also takes into account the risk of reputational damage to a FRFI if its controls were found to be inadequate in this area. Under such a scenario, customers and other counterparties might cease doing business with the FRFI, which in turn could create financial difficulties that would ultimately affect the FRFI's safety and soundness.

OSFI's ML/TF risk management assessments are planned and conducted using a risk-based approach; their frequency and depth takes into account available supervisory resources, and FRFIs' relative sizes and vulnerabilities. There is a particular focus on DSIBs as these are assessed to be at the highest level of ML/TF risk. OSFI does not conduct ML/TF assessments of property and casualty insurance companies or pension plans.

As reported last year, the assessments are conducted concurrently with the Financial Transactions and Reports Analysis Centre (FINTRAC). Each assessment evaluates procedures and controls used by the FRFI to deter and detect ML/TF and which allow it to comply with the PCMLTFA. The PCMLTFA is enforced by FINTRAC. As with financial supervision, ML/TF risk management assessments are conducted on a consolidated basis, including off-shore operations, where appropriate. Assessments also include the evaluation of procedures for blocking transactions; identifying and freezing the assets of sanctioned persons; and (if applicable) reporting to OSFI under regulations promulgated under the *United Nations Act* and *Criminal Code*, the *Special Economic Measures Act* and the *Freezing Assets of Corrupt Foreign Officials Act*.

The results of our ML/TF risk management assessments are factored into FRFIs' risk assessments and Intervention Ratings. They are also shared with FINTRAC, as authorized by subsection 22(1.1) of the OSFI Act, for the purposes of its enforcement of the PCMLTFA.

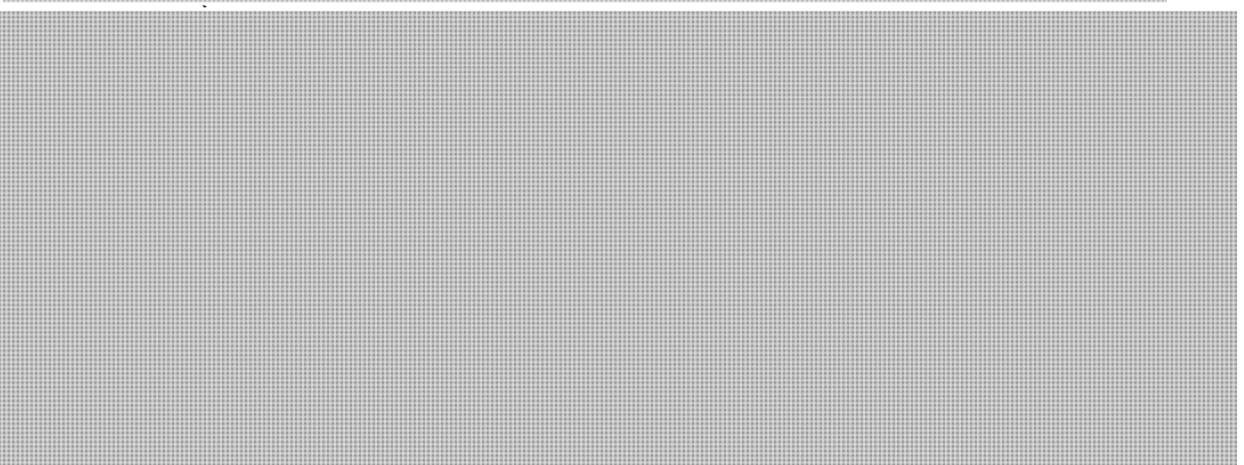
During the year, OSFI and FINTRAC continued work on restructuring ML/TF risk supervision to follow a joint approach. Agreement in principle has been reached and we continue to pilot this approach. OSFI will continue to supervise ML/TF risks of FRFIs in accordance with standards developed by the Financial Action Task Force (FATF), the Basel Committee and the International Association of Insurance Supervisors (IAIS).

### **Compliance with Legislation (excluding the PCMLTFA)**

As part of its Supervisory Framework, OSFI dedicates greater resources to FRFIs considered to have more serious regulatory risk management issues. This approach helps control costs that are ultimately borne by the industry, while also promoting a safe and sound financial system.

OSFI requires that all FRFIs have a regulatory compliance management framework designed to provide senior management, the board and OSFI with reasonable assurances that they are in compliance with all the laws, regulations and guidelines applicable to the FRFI and its subsidiaries worldwide. OSFI periodically, on a select basis, reviews a FRFI's regulatory compliance management framework. Beyond that, OSFI's approach is to focus on compliance matters that OSFI becomes aware of in the course of its supervisory work and approvals processes.

The legislation requires FRFIs to obtain the approval of the Superintendent or Minister prior to engaging in certain activities or transactions. In the fiscal year ending on March 31, 2017, OSFI completed 180 applications involving 421 approvals.



OSFI also handles compliance issues unrelated to the approvals regime.



OSFI regularly issues guidance in the form of Advisories or Interpretations to clarify OSFI's interpretation of the statutes it oversees. On June 30, 2017, an Advisory clarifying OSFI's views on the name use provisions was released.

## PRIVATE PENSION PLANS OVERVIEW

OSFI is mandated to supervise federally regulated private pension plans and protect pension plan members and other beneficiaries. It does this by developing guidance on risk management and mitigation; assessing whether private pension plans are meeting their funding requirements and managing risks effectively; and intervening promptly when corrective actions need to be taken. OSFI holds pension plan administrators ultimately responsible for sound and prudent management of their plans.

OSFI supervises over 1,200 private pension plans registered under the *Pension Benefits Standards Act, 1985* (PBSA) and the *Pooled Registered Pension Plans Act*, with assets totalling approximately \$200 billion and covering over 1.1 million beneficiaries (active members as well as other beneficiaries, including retirees) whose employment falls under federal jurisdiction (including banking, inter-provincial transportation and telecommunications). Approximately 6% of pension plans in Canada are federally regulated, representing approximately 10% of Canadian pension plan members and 11% of the pension plan assets in Canada.

### *Pension Plan Solvency*

The overall solvency position of federally registered plans improved slightly from 2015. This improvement reflected the positive effects on plan assets of strong returns on equity investments, damped somewhat by the impact of lower interest rates, which have the effect of increasing plan liabilities. OSFI views the early detection of solvency and funding problems as a key element in safeguarding members' benefits. To this end, OSFI calculates the estimated solvency ratios (the ratio of assets over liabilities on a plan termination basis) for the defined benefit pension plans it regulates prior to receiving the filed valuation reports. As at December 31, 2016, the estimated solvency ratio (ESR) for all plans was 0.97, up slightly from 0.95 at year-end 2015. ESRs calculated by OSFI at year-end 2016 also showed that approximately 80% of all defined benefit pension plans supervised by OSFI were less than fully funded on a plan termination basis, roughly unchanged from the year before. There has been a decrease in the number of plans that are more significantly underfunded (ESRs below 0.80) from 19% at the end of 2015 to 16% at the end of 2016.

### *Monitoring*

Pension plans facing higher risk due to their financial condition, plan management or other reasons, are actively monitored. Each plan is assigned a stage rating from Stage 0 to Stage 4, with Stage 4 indicating the highest level of concern. OSFI's Risk Assessment Framework for Federally Regulated Private Pension Plans is described in Appendix B.

The following chart shows a breakdown of those pension plans with a Stage Rating of 1 to 4 as at March 31, 2017.

	Stage 1	Stage 2	Stage 3	Stage 4
Defined Benefit				
Combination				
Defined Contribution				
Total				

*Terminated Pension Plans of Insolvent Employers*

On May 20, 2015, proceedings under the *Companies' Creditors Arrangement Act* (CCAA) were initiated by Canadian participating employers of a pension plan registered with OSFI, i.e. the Pension Plan for Bargaining Unit Employees of Wabush Mines, Cliffs Mining Company, Managing Agent, Arnaud Railway Company and Wabush Lake Railway Company Limited (the Wabush Union Plan). After an extensive review that was initiated by the replacement administrator, it was determined that only 66 of the 1,732 members of the Plan were under federal jurisdiction. As a result of this same review, it was determined that some members of a related pension plan not registered with OSFI, i.e. the Contributory Pension Plan for Salaried Employees of Wabush Mines, Cliffs Mining Company, Managing Agent, Arnaud Railway Company and Wabush Lake Railway Company Limited plan (the Wabush Salaried Plan), were also subject to federal jurisdiction (14 of the 656 members), despite the previous plan administrator's view that there were no federal members. Members of these plans are also under Newfoundland and Labrador and Quebec jurisdictions. The Wabush Union Plan and the Wabush Salaried Plan were terminated on December 16, 2015. The solvency ratio and total defined benefit plan assets as of the termination date were 0.83 and \$131 million, respectively, for the Wabush Union Plan, and 0.75 and \$82 million for the Wabush Salaried Plan. Litigation related to the liquidation of the companies under the CCAA continues, including questions relating to the priority for amounts owing to the pension plans under the various pension legislations (federal, Quebec, and Newfoundland and Labrador).

In April 2016, Northern Transportation Company Limited (NTCL) initiated proceedings under the CCAA. The Pension Plan for Employees of Northern Transportation Company Limited (the NTCL Plan) had a solvency ratio of 0.82, 622 defined benefit pension plan members and \$100 million in defined benefit pension plan assets at the end of 2015. The NTCL Plan was the only plan, as yet, to enter the Distressed Pension Plan Workout Scheme (the DPPWS), as permitted under the PBSA. The DPPWS allowed NTCL and representatives of the members, retirees and other beneficiaries to negotiate an alternative pension plan funding schedule. In discussions preceding a court hearing in December 2016, OSFI, along with the other parties to the court proceeding, including the pension plan replacement administrator, unions and a representative for the pension plan members, agreed to settle NTCL's pension plan obligations from a portion of the proceeds of the sale of NTCL's assets. OSFI was satisfied with the agreed settlement as the nearly \$3.0 million that it provided for exceeded the amount that OSFI argued was subject to a PBSA-priority (in its submissions to the Court). OSFI is currently in discussions with the replacement administrator regarding the future of the NTCL Plan.

### ***Canadian Press and Canada Post Pension Plans***

The federal government introduced specific funding regulations to provide relief from the normal solvency funding requirements for Canadian Press (in 2010) and for Canada Post (in 2014).

The Canadian Press Pension Plan Solvency Deficiency Funding Regulations, 2010, give the company until December 31, 2023, to amortize the deficiencies of its two pension plans (approximately \$34.4 million in total at the end of 2016). Canadian Press Enterprises has indicated that it will have difficulty funding in accordance with the special regulations in the future and it is planning to opt out of these regulations in 2017 and enter the Distressed Pension Plan Workout Scheme in 2018, with the objective of negotiating a more affordable funding schedule for future years.

The Canada Post Corporation Pension Plan Funding Regulations exempt Canada Post from the requirement to make special payments to its pension plan through 2017. Canada Post is the largest pension plan that OSFI supervises, with assets of approximately \$23.1 billion. The solvency ratio was 0.78 at the end of 2016. OSFI wrote to Canada Post in May 2017, requesting that it describe the options being considered to address any funding issues it may experience should the specific funding regulations expire at the end of this year without further relief. We also requested information about the process that Canada Post was undertaking to ensure that members of the Canada Post pension plan were kept informed in a timely and transparent manner of any actions being considered or carried out. Canada Post has responded that they are awaiting the results of the Government of Canada's review of Canada Post, which is expected to address the pension challenges facing Canada Post.

### ***Pooled Registered Pension Plans (PRPP)***

The federal *Pooled Registered Pension Plan Act* (PRPP Act), and its associated Regulations, came into force in 2012. At the end of 2016, there were four federally registered PRPPs (the same as at the end of 2015), with one reporting that it had entered into contracts with four employers and had enrolled 53 members (the total value of investments was \$77,295).

The governments of Canada, British Columbia, Nova Scotia, Ontario, Quebec and Saskatchewan have entered into a Multilateral Agreement Respecting Pooled Registered Pension Plans and Voluntary Retirement Savings Plans (PRPP Agreement). The PRPP Agreement is intended to streamline the regulation and supervision of PRPPs that are subject to the federal PRPP Act and the PRPP legislation of at least one province participating in the agreement. The PRPP Agreement effectively delegates to OSFI responsibility for licensing, registering and supervising PRPPs whose operations fall within the jurisdiction of both the federal government and that of the participating provinces. The PRPP Agreement does not give OSFI responsibility with respect to the Quebec Voluntary Retirement Savings Plan (VRSP), but permits authorized VRSP administrators to act as PRPP administrators under the federal PRPP Act if they register a PRPP federally. OSFI has produced considerable guidance for PRPP administrators in the last year,

including a Pooled Registered Pension Plan Annual Information Return and accompanying Guide, as well as instruction guides for applying for a license to be a Pooled Registered Pension Plan administrator and for registering a Pooled Registered Pension Plan.

The *Assessment of Pension Plans Regulations*, made pursuant to the *Office of the Superintendent of Financial Institutions Act*, were amended, effective October 21, 2016, to provide for the recovery of expenses from PRPPs by way of annual assessments of the PRPPs. For purposes of calculating annual assessments, PRPPs are subject to the same assessment formula and basic rate as pension plans subject to the *Pension Benefits Standards Act, 1985*.

## **Appendix A – Supervision Process for Financial Institutions**

The Supervisory Framework describes the principles, concepts and core process that OSFI uses to guide its supervision of federally regulated financial institutions.

This methodology involves an assessment of an institution's risk profile, including the risks inherent in its activities, the quality of its risk management, its financial condition and its compliance with applicable laws and regulations. In arriving at this assessment, OSFI uses, where appropriate, the work of an institution's risk management oversight to ensure appropriate controls are in place and are being followed at the operational level. This allows OSFI to focus its resources on issues that are more likely to have a material impact on the institution's safety and soundness. OSFI practices a risk-based approach to prioritizing its work, and therefore, not all areas of an institution are reviewed each year.

The Supervisory Framework is applied by teams responsible for the supervision program for institutions of varying nature, scope and complexity. The 2016 supervision program consisted of a continuum of supervisory work that ranged from monitoring (institution-specific and industry-wide), to limited desk reviews and on-site reviews. Not all institutions receive an on-site review each year. Problem companies (staged) are subject to more frequent on-site reviews and monitoring.

### **(1) Monitoring**

Monitoring refers to the regular review of information regarding the institution and its industry and environment to remain abreast of changes that are occurring or planned, both in the institution and externally, and to identify emerging issues.

Institution-specific monitoring includes the analysis of the institution's interim and annual financial results, through returns filed with OSFI or information used by the institution to monitor and assess its business. Monitoring typically considers performance by business line and vis-à-vis peers. There is increased importance placed on capital adequacy and the results of stress tests.

OSFI actuaries review the actuarial liabilities set up by insurance companies, in part by analysing the actuarial reports submitted along with the regulatory returns for insurance companies. Independent actuarial reviews are commissioned on a selective basis.

Supervisors monitor media and analyst reports and rating agency reports, and hold discussions with industry experts, other regulators and company officials to gather information on individual companies and the industry in general.

## (2) Reviews

Reviews refer to more extensive supervisory work than monitoring. Reviews are conducted when we need further information in order to re-assess the risk profile. The scope of these reviews may include, where appropriate, an assessment of the following areas:

- The key risks inherent in an institution's significant activities, as well as the quality of the risk management performed by first line management and overseen by the institution's independent oversight functions (Financial, Compliance, Actuarial, Risk Management, Internal Audit, Senior Management and Board);
- Internal processes for monitoring compliance with governing and other legislation;
- The quality of selected risk assets and the adequacy of allowances for impairment;
- Reinsurance arrangements;
- Actuarial reserves and assumptions;
- Capital, earnings and liquidity; and,
- Any other identified issues that may have a significant impact on the risk profile of the institution.

These reviews also include discussions with senior management about the institution's operations and strategic direction. In conducting these reviews, OSFI relies on the institution's external auditors for the fairness of the financial statements and uses, where appropriate, the work of the external auditor and appointed actuary to minimize duplication of effort. It also uses the expertise of OSFI's internal specialists to assist supervisors in reviewing the more technical aspects of an institution's operations.

ML/TF on-site assessments are conducted using a similar process, including an evaluation of, and use of the work of the institution's oversight functions. This is supplemented by a review of compliance with the PCMLTFA.<sup>5</sup> Moreover, the inherent risk focus is on the ability of each institution to be used to launder money or process terrorist funds. As with prudential supervision, not all institutions are subject to an on-site review each year. OSFI has developed an on-site assessment frequency plan based on an overall risk rating of financial institutions for ML/TF purposes.

In addition to the core supervisory work of monitoring and reviews, OSFI undertakes comparative or benchmarking reviews to identify standard and best industry practices.

OSFI determines a Composite Risk Rating (CRR) reflecting OSFI's assessment of the safety and soundness of a financial institution, including the business risks and quality of risk management, earnings, capital and liquidity of the institution, as well as our assessment of its ML/TF regime. Since 2013-14, a Branch Risk Rating (BRR) has been assigned to Foreign Bank Branches (FBBs)

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<sup>5</sup> ML/TF assessments are not conducted on property & casualty insurance companies because these are not subject to the PCMLTFA.

operating in Canada, reflecting OSFI's overall assessment of the FBB, including parental support. There are four possible categories for CRR and BRR: 'low,' 'moderate,' 'above average' and 'high.' A financial institution's CRR is reported to it annually (certain inactive or voluntary wind-up institutions may not be rated); however, an FBB's BRR is not disclosed, due to the limited information available to support a BRR rationale.

Based on the above, all financial institutions are assigned an Intervention Rating as described in the *Guide to Intervention for Federally Regulated Financial Institutions*. The Intervention Ratings are: no significant problems/normal activities (Stage 0); early warning (Stage 1); risk to financial viability or solvency (Stage 2); future financial viability in serious doubt (Stage 3); and non-viability/insolvency imminent (Stage 4).

Supervisory information regulations prohibit financial institutions from publicly disclosing their rating.

## **Appendix B – Risk Assessment Framework for Federally Regulated Private Pension Plans**

OSFI's risk assessment framework for private pension plans is similar to the framework used to supervise financial institutions. It is risk-based and the degree of supervisory monitoring and OSFI interventions will depend on the level of risk in a plan. OSFI uses the work of professionals in establishing the accuracy of financial statements and the valuation of plan liabilities, and expects plan administrators to administer their plans in compliance with the PBSA.

### **(1) Monitoring**

Active monitoring of indicators, including media alerts, financial information and other applicable information, permits early identification of potential issues, risks or non-compliance. At any time, issues identified through ongoing monitoring may trigger a more in-depth review or intervention. Tiered risk indicators, actuarial report reviews and the estimated solvency ratio exercise also provide information on areas of potential risk.

#### *Tiered Risk Indicators*

A series of indicators is used to detect risks based on data filed by plan administrators. Possible areas of risk can be related to the remittance of contributions, the composition and return of the plan's assets, the plan's demographics, and the financial position of the plan. The extent of risk identified determines whether a more in-depth assessment is required, allowing OSFI to focus on its problem plans.

#### *Review of Actuarial Reports*

Supervisors review all actuarial reports filed with OSFI. When warranted, this actuarial report review by the supervisor is supplemented by a more detailed review conducted by OSFI's actuarial team, and issues are brought to the attention of the plan actuary and the plan administrator.

#### *Estimated Solvency Ratio (ESR) Exercise*

The ESR is OSFI's estimate of a plan's solvency ratio assuming the plan is terminated on the ESR date; it allows OSFI to monitor the solvency situation of a defined benefit plan between the filing of actuarial reports. The objective is to assist OSFI with the early identification of solvency issues that could jeopardize the security of promised benefits. OSFI interventions range from requiring plan administrators to cease contribution holidays, disclose information to members, or file early actuarial reports.

## (2) In-depth Review

### *Risk Assessment Summary*

When monitoring reveals risks that warrant an in-depth review, the inherent risks facing the plan, the quality of risk management, financial indicators and the position of the employer(s) are assessed and documented in the Risk Assessment Summary (RAS). The RAS reflects the assessor's judgment of the significance of the risks. Action plans are developed to address specific risks and concerns, and some plans are further assessed through an examination.

### *Examinations*

Examinations – where the supervisors review the documentation and practices of the pension plan administrator – are used to assess the quality of controls and oversight, enhance the assessment of the financial situation of an employer and the quality of the administration of a plan. Typically, the supervisor will start the examination by reviewing the documents already filed or that the supervisor may have requested from the plan administrator over and above the regular filings (a "desk review"). If warranted, the supervisor may conduct the examination at the location of the plan administrator (an "on-site examination") in order to have better access to the documents related to the plan administration, as well as to interview those individuals involved in the administration of the pension plan.

## (3) Interventions

The *Guide to Intervention for Federally Regulated Private Pension Plans* outlines the types of involvement that a federally regulated plan administrator and employer can expect from OSFI and summarizes the circumstances under which certain intervention measures may be taken. Interventions may, however, take place at any time at the discretion of the Superintendent, depending on a plan's circumstances.



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**MEMORANDUM NOTE DE SERVICE**

*Lettre sur l'accès à l'information*

TO Minister of Finance

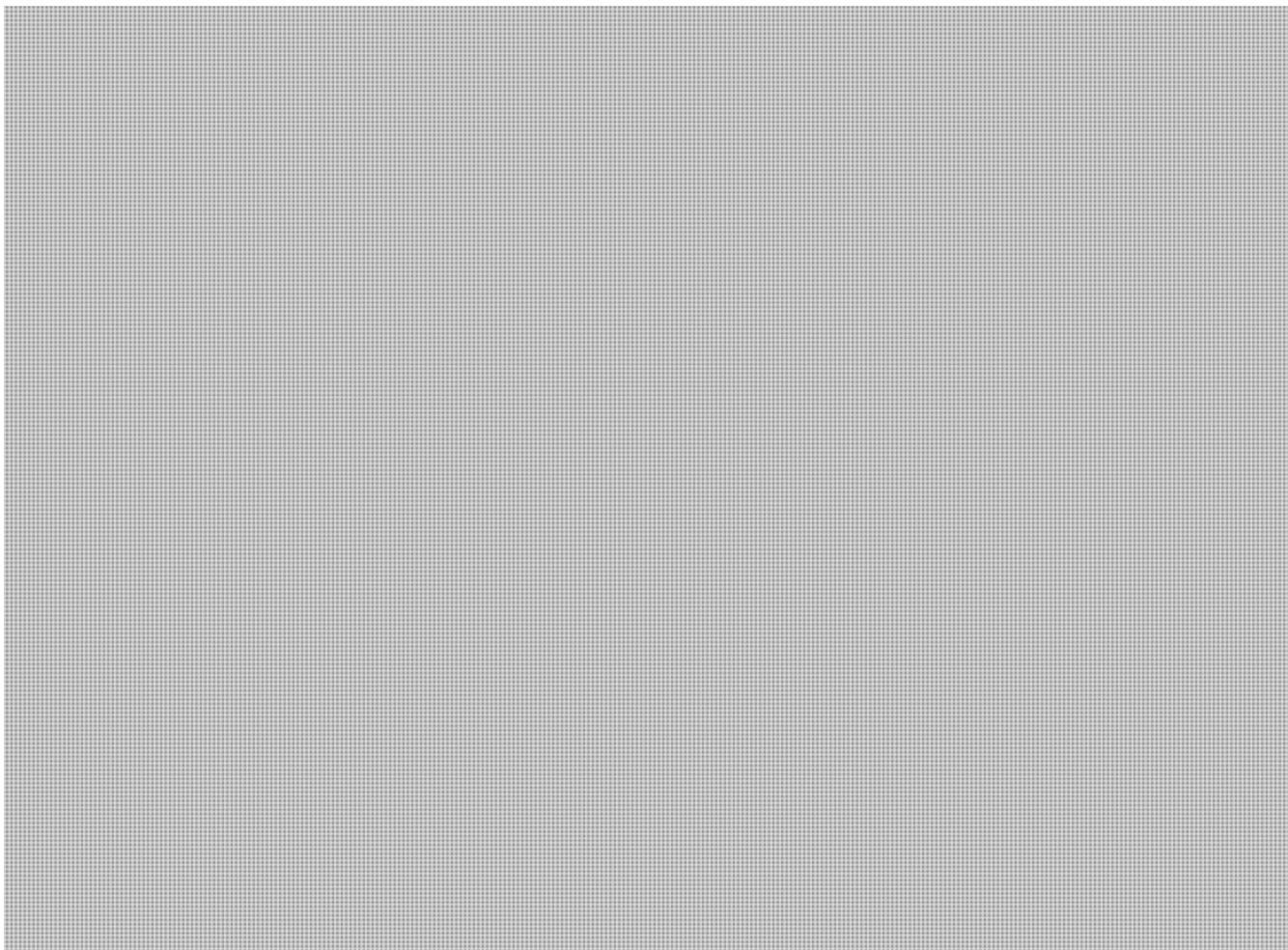
FROM DE Paul Rochon

**SIGNED BY  
MINISTER**

NOV 20 2017

SUBJECT OBJET Update on NAFTA financial services discussions

Security classification Classification de sécurité	
<b>SECRET ~ Limited Distribution</b>	
Originator Auteur	
Sven Linkruus	
Our file Notre référence	
Your file Votre référence	
2017FIN462804	
Date	
	NOV 06 2017



ADM – Leah Anderson (613-369-3620)  
Director General – Eleanor Ryan (613-369-3904)

**Canada**

**s.15(1)**

**s.21(1)(a)**

**s.21(1)(c)**

**000073**

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**15(1), 21(1)(a), 21(1)(c), 69(1)(g) re: (a)**

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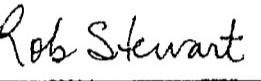
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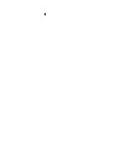
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 Department of Finance Canada Ministère des Finances Canada

For Signature by / Information of À signer par / Pour l'information de	
<b>Minister of Finance</b>	
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Remarks Remarques:	
Update on NAFTA financial services discussions	
File no. No de dossier 2017FIN462804	Date NOV 06 2017

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